

## **.Mahaweli Consultancy Bureau (Pvt) Ltd - 2019**

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The audit of the operations of the Mahaweli Consultancy Bureau (Pvt) Ltd ( “Company ”) for the year ended 31 December 2019 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented to the Parliament in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

### **1.1 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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As per Section 16(1) of the National Audit Act No. 19 of 2018, every auditee entity shall maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared in respect of such entity. According to the Section 16(2) of the said Act, the annual financial statements in respect of every other auditee entity shall be submitted by the Chief Accounting Officer to the Auditor-General along with the annual performance reports, within such period as may be provided by rules. According to the Section 38(1)(d) of the said Act, it should be ensured the timely preparation and submission of annual reports and other financial statements and in addition the Chief Accounting Officer should be required to submit annual reports to Parliament pertaining to the auditee entity.

### **2. Report on other legal and regulatory requirements**

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The National Audit Act No. 19 of 2018 and the Companies Act No. 7 of 2007 contain special provisions regarding the following requirements.

Pursuant to Section 150(1) of the Companies Act No. 07 of 2007, the Board of Directors of the Company shall ensure that the person responsible for the preparation of the financial statements is prepared within six months from the date of the balance sheet.

### **2.1 Financial Statement**

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>the Recommendation</b>
The Chairman had not been appointed for the Company after the term of the Board of Directors including the former Chairman of the Company end on 31 December 2018, and on 25 March 2019 the Secretary to the Ministry of Mahaweli Development and Environment had been appointed two officers of the Mahaweli Authority of Sri Lanka as Board Members for the Company from 01 January 2019.	Agree. Section 150 (a) of the Companies Act No. 07 of 2007 should obtain the approval of the Board of Directors to forward financial statements and at that time the Board of Directors could not obtain approval due to vacancies. The Board of Directors had been appointed and looks forward to making financial statements as soon as possible with the approval of the Board.	the approved Financial statements of the Board of Directors should be submitted in accordance with the Companies Act No. 07 of 2007

However, they had resigned from the post of Director in accordance with Circular No. PS/SP/ SB/Circular/2/2019 dated 28 November 2019 to the Secretary's to the President. The Company had failed to submit financial statements in accordance with Section 150(1)(c) of the Companies Act No. 07 of 2007 as a Board of Directors had not been appointed as at 31 December 2020.

## 2.2 Non- compliance with Laws, Rules, Regulations and Management Decisions

The following observations are made.

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non- compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Paragraph 3 of Public Administration Circular No. 9/2009 dated 16 April 2009	As the use of fingerprint machines would allow officers to maintain more systematic records of office arrivals and departures Fingerprinting machines should be used in every office, regardless of the number of employees in the workplace, although the company did not use a fingerprint machine to record the arrival and departure of officers,	It had been decided to wind- up this institute in year 2018. In the future, will take steps to install fingerprint machines and streamline internal administration for arrivals and departures.	Arrangements should be made to use a fingerprint machine in accordance with the circular.
(b) Section 3.4 of the Government Procurement Guidelines	A private company was selected to calculate the company's income tax without inviting	Steps had been taken to rectify the relevant matters. The audit firm that dealt with the company's tax affairs had previously been	Action should be taken to select suppliers by calling quotation in accordance with Government

a price to the shopping method quotation system and For that the previous year and the year under review Rs.82,500 and Rs.75,000 had been paid respectively.

served as the company's auditor. Would like to further state that the income tax payment was done at a high level of professionalism considering his professional understanding and expertise in this company. However, as the audit had pointed out in the future, kindly inform that will act in accordance with the procurement guidelines of the government.

Procurement Guidelines.

- (c) Section 19 of Chapter 17 of the Accounting Standards for Small and Medium Enterprises
- Due to non-review of effective lifetime for non-current assets annually, 20 item of fixed assets owned to the company a cost of Rs.2,513,233 were fully depreciated furthermore continuously had been utilized. Accordingly, action had not been taken to rectify the arising estimated error.
- Steps have been taken to rectify the relevant matter. This required the approval of the Board of Directors and will take immediate action to rectify as the Board of Directors has currently been appointed. Although the assets have been completely depreciated, would inform to state that those assets have not been removed from the Fixed Asset Register and kindly inform that necessary steps will be taken to revaluation those assets and include them in the books without delay. I have already given relevant instructions to take immediate action to rectify the accounts by removing the assets which are not considered as fixed assets from the fixed assets.
- Action should be taken to re-review the effective lifetime of existing has already used fixed assets that have been fully depreciated in accordance with accounting standards.

### 3 Operational review

#### 3.1 Management inefficiencies

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Although this company has been approved for liquidation by Cabinet Decision No. CP/19/2550/104/076 dated 25th September 2019, after, according to Cabinet Decision No. CP / 19/2770/104/083 dated 15 October 2019 the Company was approved to be handed over to the Ministry of Agriculture, Rural Economic Affairs, Irrigation and Fisheries and Aquatic Resources Development. However, the company had not been made a handover until February 2021.	The Company is in the process of being handed over to the relevant Line Ministry in accordance with Cabinet Decision No. 19/2770/104/083 dated 15th October 2019.	Should be acted in accordance with the Cabinet decisions.
(b) By the Committee on Public Enterprises held on 21 February 2019, recommend that if the management or the Chairman of the Company is involved in financial fraud, legal action has taken to resolve it in that is not detrimental to the institution and that a formal inquiry should be initiated and reported to the Committee within one month, those recommendations had not been implemented.	At the moment, the chairman, who is suspected of financial fraud, has died and legal action to recover is being studied to recover the money.	Action should be taken to implement the recommendations of the Committee on Public Enterprises.

#### 3.2 Operational inefficiencies

The following observations are ma

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The contract for the construction of the Hingurakgoda Samurdhi Community Based Bank Building was awarded by the Polonnaruwa District Secretary to the Mahaweli	At the moment relevant issue has been resolved. The relevant final work of contract of the Hingurakgoda Samurdhi Community Based Bank	Arrangements should be made to complete the constructor required standard within the relevant period as per

- Consultancy Services Bureau (Pvt) Ltd. According to the agreement, although the construction was scheduled for completed 15 December 2017, but construction was not completed and the company halted construction on 15 July 2018.
- building has been completed and handed over to the Samurdhi Bank in March 2020. It has been agreed to pay the balance amount to us after completing the deficiencies.
- the construction agreements accepted by the Company.
- (b) Although the company has submitted a final bill of Rs.11,998,130 for the renovation of Dimuthuwewa located in the Medirigiriya Divisional Secretariat Division, as the development of the Dimuthuwewa downstream had been done outside the scope, that the entire amount not be paid the committee appointed to renovate the Dimuthuwewa had been recommended. Accordingly, the total amount recommended by the Committee to be paid to the Company was Rs.4,840,515 and only Rs.1,869,030 had been paid to the Company after deducting the advance of Rs.2,971,485. Accordingly, the company had incurred a loss of Rs. 7,157,615.
- The observed loss is significantly lower than the quoted prices. The cause of the loss is out of the control of the institution. According to the audit observation, although the audit report had reported a financial loss of Rs. 7,157,615, the company had calculated a net loss of only Rs. 2,621,669. When carrying out a project, the client is constantly requested to work outside of the written agreement. The company carried out additional work related to the contract as per the instructions received as un-written as a Ministry of Government and this problem had to be faced as the relevant approval had not been obtained.
- Construction should be carried out only within the scope of the contract agreement and additional work carried out without approval loss of the company, should recover the loss from the responsible party in case of any loss.
- (c) The contract agreement to rehabilitation of the Kanewela anicut, the company had been terminated. Accordingly, Hold of the performance bond of Rs.1,730,055, the balance of Rs.1,000,089 had not repaid in advance bond and including retention money of Rs.419,421 the company had incurred a loss of Rs.3,149,565.
- Observations are and agree. Due to a decision had taken by the company to liquidate at that time; there was no opportunity to terminate this contract. However, kindly inform you that the company can recover the withholding amount of Rs. 419,421.
- Should be recovered from the responsible parties.
- (d) According to the Debtors age Analysis, the receivable balance of the Company's as at 31 December 2019 value of Rs.47,074,872 was and Out of which Rs.4,176,453 account balances were observed to be outstanding for more than 5 years.
- Accepted kindly inform you that this will be forwarded to the newBord of Director to take appropriate dedision.
- Action should be taken to settle the receivable balances of the company.

- (e) According to the creditors age Analysis, the payable balance of the Company's as at 31 December 2019 value of Rs.24,170,130 was and Out of which Rs.8,576,246 account balances were observed to be outstanding for more than 5 years. In that balance, applicable to completed consulting services, amount of Rs.7,991,483 4 mobilization advanced of work completed consultancy services of were stated as balance to be payable balance.
- Accepted observations. Arrangements have been made to instruct the relevant divisions to correct the accounts. Action should be taken to settle the account payable balances.
- (f) The two officers who served as the Heads of the Project and Engineering Divisions of the Company's had resigned on 31 December 2018 and 28 February 2019 respectively and the posts had been vacant since then. Any new operations were not undertaken for the year 2019 from the project and engineering divisions, and the company operating income stood to Rs.90.2 million in 2018 from Rs.29.8 million in 2019 had been decreased by 67 per cent.
- These vacancies filling were suspended because they had a policy decision to liquidate the company. But as that policy decision has changed, recruitment is being expedited. Action should be taken to resolve the company's administrative issues and operations efficiently.
- (g) For preparation of Environmental Impact Assessment Reports for the Lower Malwathu Oya Project and the Kivul Oya Reservoir Project which were contracted in 2013, receivable of the company amount of Rs.2,642,750 to had not been recovered as at 31 December 2020.
- Do not agree. Arrangements are being made to recover that amount. Upon receipt of the approvals required by the Central Environmental Authority and the Department of Forest Conservation, this amount will able to recover immediately and will be inform without delay. Action should be taken to recover all charge money to the company expeditiously
- (h) The company has not yet recovered Rs.20.2 million from the relevant parties for violating the procurement guidelines in awarding sub-contracts for the construction of the Moragahakanda Circuit Bunglow and Visiting Center.
- Kindly inform that necessary steps are being taken to recover the relevant amount. The money owed to the company should be recovered expeditiously from the relevant responsible parties.

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| (i) | According to the fixed asset register, as at 31 December 2019, the Mahaweli Consultancy Bureau has Rs.16,749,105 worth of assets but physical verification had not been carried out to verify the physical existence of the relevant assets.  | Although the company had carried out physical verification, it had not been done by a panel appointed in accordance with the asset survey methodology for verification of government assets. However, kindly inform that action will take for this in the year 2021.   | Action should be taken to carry out a physical verification to ascertain the physical existence of the assets.  |
| (j) | Although the agreements entered into to provide consultancy services for the Kivul Oya Reservoir and Lower Malwathu Oya projects had expired on 31 December 2015 and 04 December 2017 respectively, Without extension the agreement period, 37 additional copies of the Environment Impact Assessment draft reports on those projects had been provided as at year 2020. For that, the company had to incur an additional cost of Rs.198,000. Also, although 23 copies of the Addendum report were provided for the Malwathu Oya project, the terms of the consultancy agreement on the fees charged for Addendum report were not included. | Disagree with the observation. As the relevant approvals have not yet been obtained by the Central Environmental Authority, the design evaluation copies are not copies of the final report but only the draft reports. The Company does not charge a separate fee for draft reports, and the general procedure is to recover all expenses after the final report is entered into in the contract. | Action should be taken to recover the money spent on additional copies provided after the agreement period and action should be taken to extend the term of the agreements which have ended agreement period. |